

**THE FEDERAL SECTOR OF THE  
NATIONAL INCOME AND PRODUCT ACCOUNTS**

**July 30, 1999**

**Congress of the United States  
Congressional Budget Office**

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# Preface

This report provides material that supplements the Congressional Budget Office's (CBO's) *The Economic and Budget Outlook: An Update* (July 1, 1999). In accordance with CBO's mandate to provide objective and impartial analysis, this document contains no recommendations.

The analysis was prepared by Jennifer Winkler of the Projection's Unit in CBO's Budget Analysis Division under the supervision of Paul Van de Water.

Christian Spoor edited the report, and Liz Williams proofread it. Marion Curry assisted in the production of the report. Kathryn Quattrone prepared the final version for publication, and Laurie Brown prepared the electronic versions for CBO's World Wide Web site ([www.cbo.gov](http://www.cbo.gov)).

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# The Federal Sector of the National Income and Product Accounts

The federal budget is not the only mechanism for gauging the effect of federal government revenues and spending on the economy. That effect can also be seen through the official national income and product accounts (NIPAs) produced by the Commerce Department's Bureau of Economic Analysis. The NIPAs provide a picture of government activity in terms of production, distribution, and use of output. They recast the government's transactions into categories that affect gross domestic product, income, and other macroeconomic totals, thereby helping to trace the relationship between the federal sector and other areas of the economy.

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## Relationship Between the Budget and the NIPAs

A handful of major differences distinguish the treatment of federal receipts and expenditures in the NIPAs from their treatment in the unified budget. For example, the NIPAs shift selected dollars from the spending to the receipt side of the ledger to reflect intrabudgetary or voluntary payments that the budget records as negative outlays. Such shifts are referred to as *netting and grossing* adjustments and do not affect the surplus or deficit (see Table 1). The vast majority of netting and grossing adjustments reflect intrabudgetary receipts for retirement contributions on behalf of fed-

eral workers and voluntary premiums for Medicare coverage.

By contrast, other differences between the federal budget and the NIPAs do affect the surplus or deficit. The NIPA totals exclude government transactions that involve the transfer of existing assets and liabilities and therefore do not contribute to current income and production. Prominent among such *lending and financial* adjustments are those for deposit insurance outlays, cash flows for direct loans made by the government before credit reform, and sales of government assets. Other factors that separate NIPA accounting from budget accounting include *geographic adjustments* (the exclusion of Puerto Rico, the Virgin Islands, and a few other areas from the national economic statistics) and *timing adjustments* (such as correcting for irregular numbers of benefit checks or paychecks in the budget because of quirks in the calendar).

Another difference between the NIPAs and the unified budget is their differing *treatment of investment and capital consumption*. The unified budget reflects all expenditures of the federal government, including investment purchases such as buildings and aircraft carriers. The NIPA budget shows the current, or operating, account for the federal government; consequently, it excludes government investment and includes the government's consumption of fixed capital (depreciation). (Government investment does not dis-

appear but is classed along with private investment rather than in the government accounts.) That parallels the treatment of investment in and depreciation of private-sector assets in the NIPAs.

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## NIPA Receipts and Expenditures

The federal sector of the NIPAs generally classifies receipts according to their source (see Table 2). The leading source of government receipts in the 1999-2009 period is taxes and fees paid by individuals. Following that category are contributions (including premiums) for social insurance, such as Social Security, Medicare, unemployment insurance, and federal employees' retirement. The remaining categories are accruals of taxes on corporate profits, including the earnings of the Federal Reserve System, and accruals of indirect business taxes (chiefly excise taxes) and nontax accruals (chiefly fees).

Government expenditures are classified according to their purpose and destination. Defense and non-defense consumption of goods and services is purchases made by the government for immediate use. The largest share of current consumption is compensation of federal employees. Consumption of fixed government capital is the use the government gets from its fixed assets.

Transfer payments are cash payments made directly to people or foreign nations. Grants-in-aid are payments that the federal government makes to state or local governments, which then use them for transfers (such as paying Medicaid benefits), consumption (such as hiring additional police officers), or investment (such as building highways).

Although both the unified budget and the NIPAs contain a category labeled "net interest," the NIPA figure is smaller. A variety of differences cause the two measures to diverge. The largest difference is the contrasting treatment of interest received on late payments of personal and business taxes. In the unified budget, both types of interest payments are counted on

the revenue side, as individual income taxes and corporate income taxes, respectively. In the NIPAs, they appear as offsets to federal interest payments.

The NIPA category labeled "subsidies less current surplus of government enterprises" contains two components, as its name suggests. The first—subsidies—is defined as monetary grants paid by government to businesses, including state and local government enterprises. Subsidies are dominated by housing assistance.

The second part of the category is the current surplus of government enterprises. Government enterprises are certain business-type operations of the government, such as the Postal Service. The operating costs of government enterprises are mostly covered by the sale of goods and services to the public rather than by tax receipts. The difference between sales and current operating expenses is the enterprise's surplus or deficit. *Government enterprises* should not be confused with *government-sponsored enterprises* (GSEs), private entities established and chartered by the federal government to perform specific financial functions, usually under the supervision of a government agency. Examples of GSEs include the Federal National Mortgage Association (Fannie Mae) and the Student Loan Marketing Association (Sallie Mae). As privately owned organizations, GSEs are not included in the budget or in the federal sector of the NIPAs.

The final entry in Table 2 under expenditures, labeled "required reductions in discretionary spending," is not a category in the NIPAs. Rather, it is an accounting for policy changes that must be made in the future. The discretionary expenditures included in the NIPA categories reflect 1999 levels of spending, adjusted for inflation each year. The Balanced Budget Act of 1997 imposed statutory limits on total discretionary spending. Holding spending to those limits would require policymakers to reduce discretionary outlays below levels that would keep pace with inflation. Those savings cannot be assigned to a particular NIPA category because policymakers can comply with the discretionary spending caps in any number of ways. But reductions are most likely to come from defense and nondefense consumption and grants to state and local governments.

**Table 1.**  
**Relationship of the Budget to the Federal Sector of the**  
**National Income and Product Accounts (By fiscal year, in billions of dollars)**

	Actual											
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Receipts</b>												
Revenue (Budget basis) <sup>a</sup>	1,721	1,821	1,905	1,970	2,045	2,116	2,198	2,296	2,396	2,501	2,609	2,725
Differences												
Netting and grossing adjustments												
Government contributions												
for employee retirement	72	73	76	78	81	83	86	89	92	95	99	102
Medicare premiums	21	22	23	25	28	31	34	38	40	44	49	53
Deposit insurance premiums	b	b	b	b	b	b	b	b	b	b	b	b
Other	10	7	5	6	6	5	3	2	2	1	1	b
Geographic adjustments	-3	-3	-3	-3	-4	-4	-4	-4	-4	-4	-4	-5
Excise timing adjustments	4	-5	0	0	0	0	0	0	0	0	0	0
Universal Service Fund receipts	-3	-4	-6	-8	-13	-13	-13	-13	-14	-14	-14	-14
Other	<u>-4</u>	<u>b</u>	<u>-3</u>	<u>-3</u>	<u>-3</u>	<u>-2</u>	<u>-2</u>	<u>-2</u>	<u>-2</u>	<u>-2</u>	<u>-2</u>	<u>-3</u>
Total	97	90	92	94	101	104	109	114	119	125	133	140
Receipts (NIPA basis)	1,818	1,911	1,997	2,064	2,146	2,220	2,307	2,410	2,515	2,626	2,742	2,865
<b>Expenditures</b>												
Outlays (Budget basis) <sup>a</sup>	1,653	1,701	1,744	1,777	1,798	1,869	1,932	2,009	2,062	2,137	2,224	2,312
Differences												
Netting and grossing adjustments												
Government contributions												
for employee retirement	72	73	76	78	81	83	86	89	92	95	99	102
Medicare premiums	21	22	23	25	28	31	34	38	40	44	49	53
Deposit insurance premiums	b	b	b	b	b	b	b	b	b	b	b	b
Other	10	7	5	6	6	5	3	2	2	1	1	b
Lending and financial transactions	8	11	5	8	16	8	9	7	9	9	9	10
Geographic adjustments	-10	-10	-10	-11	-11	-12	-12	-13	-13	-14	-15	-15
Defense timing adjustment	1	1	3	2	2	1	1	0	0	0	0	0
Mandatory timing adjustments	0	0	0	-3	3	0	0	-11	6	5	0	0
Treatment of investment and capital consumption	10	8	7	8	8	7	5	4	2	1	b	-2
Universal Service Fund payments	-2	-4	-6	-8	-13	-14	-14	-14	-14	-14	-14	-14
Other	<u>-5</u>	<u>-3</u>	<u>-5</u>									
Total	105	105	98	100	114	104	107	98	120	124	124	130
Expenditures (NIPA basis)	1,758	1,806	1,842	1,877	1,912	1,973	2,039	2,107	2,182	2,261	2,348	2,442

**Table 1.**  
**Continued**

	Actual											
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
	<b>Surplus</b>											
Surplus (Budget basis) <sup>a</sup>	69	120	161	193	246	247	266	286	334	364	385	413
Differences												
Lending and financial transactions	-8	-11	-5	-8	-16	-8	-9	-7	-9	-9	-9	-10
Geographic adjustments	7	7	7	7	8	8	8	9	9	10	10	11
Defense timing adjustment	-1	-1	-3	-2	-2	-1	-1	0	0	0	0	0
Excise and mandatory timing adjustments	4	-5	0	3	-3	0	0	11	-6	-5	0	0
Treatment of investment and capital consumption	-10	-8	-7	-8	-8	-7	-5	-4	-2	-1	b	2
Universal Service Fund payments	-1	b	-1	0	1	1	b	b	0	b	0	b
Other	<u>b</u>	<u>3</u>	<u>2</u>	<u>2</u>	<u>8</u>	<u>7</u>						
Total	-9	-15	-7	-6	-13	b	2	16	-1	1	8	10
Surplus (NIPA basis)	60	105	155	187	233	247	268	302	333	365	393	424

SOURCE: Congressional Budget Office.

NOTE: Numbers may not add up to totals because of rounding.

a. Includes Social Security and the Postal Service.

b. Less than \$500 million.

**Table 2.**  
**Projections of Baseline Receipts and Expenditures Measured by the**  
**National Income and Product Accounts (By fiscal year, in billions of dollars)**

	Actual 1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Receipts</b>												
Personal Tax and Nontax Receipts	839	897	951	983	1,020	1,054	1,097	1,145	1,199	1,255	1,317	1,384
Contributions for Social Insurance	676	711	747	77	807	839	872	915	954	997	1,039	1,083
Corporate Profits Tax Accruals	208	204	199	202	212	218	227	235	245	255	264	272
Indirect Business Tax and Nontax Accruals	<u>95</u>	<u>99</u>	<u>100</u>	<u>102</u>	<u>106</u>	<u>109</u>	<u>111</u>	<u>114</u>	<u>117</u>	<u>119</u>	<u>123</u>	<u>126</u>
Total	1,818	1,911	1,997	2,064	2,146	2,220	2,307	2,410	2,515	2,626	2,742	2,865
<b>Expenditures</b>												
Purchases of Goods and Services												
Defense												
Consumption	248	253	272	273	282	289	296	306	312	317	329	338
Consumption of fixed capital	55	54	54	53	52	52	52	51	51	51	51	51
Nondefense												
Consumption	138	154	161	168	174	179	185	189	194	199	206	212
Consumption of fixed capital	<u>15</u>	<u>15</u>	<u>16</u>	<u>16</u>	<u>17</u>	<u>17</u>	<u>17</u>	<u>18</u>	<u>18</u>	<u>19</u>	<u>19</u>	<u>20</u>
Subtotal	455	476	503	510	525	537	550	564	575	586	604	620
Transfer Payments												
Domestic	794	811	851	892	937	987	1,038	1,093	1,153	1,217	1,286	1,361
Foreign	<u>12</u>	<u>12</u>	<u>12</u>	<u>12</u>	<u>13</u>	<u>13</u>	<u>13</u>	<u>14</u>	<u>14</u>	<u>14</u>	<u>15</u>	<u>15</u>
Subtotal	805	822	863	904	950	1,000	1,051	1,107	1,167	1,232	1,301	1,377
Grants-in-Aid to State and Local Governments	235	252	273	290	306	321	338	356	376	397	421	446
Net Interest	233	219	208	197	179	163	148	131	113	93	73	51
Subsidies Less Current Surplus of Government Enterprises	29	36	28	27	28	30	32	34	35	38	40	43
Required Reductions in Discretionary Spending <sup>a</sup>	<u>n.a.</u>	<u>n.a.</u>	<u>-32</u>	<u>-51</u>	<u>-75</u>	<u>-78</u>	<u>-79</u>	<u>-84</u>	<u>-84</u>	<u>-84</u>	<u>-91</u>	<u>-95</u>
Total	1,758	1,806	1,842	1,877	1,912	1,973	2,039	2,107	2,182	2,261	2,348	2,442
<b>Surplus</b>												
Surplus	60	105	155	187	233	247	268	302	333	365	393	424

SOURCE: Congressional Budget Office.

NOTE: Numbers may not add up to totals because of rounding. n.a. = not applicable.

a. Unspecified reductions needed to comply with the statutory caps on discretionary spending.